

**REPORT OF THE AUDIT OF THE
SHELBY COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2014**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
SHELBY COUNTY FISCAL COURT**

June 30, 2014

The Auditor of Public Accounts has completed the audit of the Shelby County Fiscal Court for fiscal year ended June 30, 2014.

We have issued an unmodified opinion, based on our audit, on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Shelby County, Kentucky.

Financial Condition:

The Shelby County Fiscal Court had total receipts of \$20,587,283 and disbursements of \$19,284,096 in fiscal year 2014. This resulted in a total ending fund balance of \$7,514,695, which is an increase of \$1,728,187 from the prior year.

Report Comments:

- 2014-001 The Fiscal Court's Lack Of Adequate Segregation Of Duties And Weak Internal Controls Allowed The Payroll System To Be Manipulated And Unearned Payments To Be Made To Two Employees Totaling \$21,346
- 2014-002 The Fiscal Court Lacks Adequate Segregation Of Duties And Should Improve Internal Controls Over Disbursements
- 2014-003 The Fiscal Court Should Strengthen Internal Controls Over Payroll Processing To Ensure Employee Retirement Information Is Accurately Entered Into The County Employee Retirement System And Agrees To Supporting Payroll Documentation
- 2014-004 The Fiscal Court Should Implement A Capital Asset Inventory Policy And Maintain Complete And Accurate Capital Asset Schedules
- 2014-005 The Fiscal Court Should Reconcile The Payroll Revolving Bank Account And Resolve The Negative Account Balance
- 2014-006 The Fiscal Court Should Improve Controls Over Credit Card Purchases
- 2014-007 The Fiscal Court Should Have An Agreement With The Depository Institution To Pledge Or Provide Sufficient Collateral To Protect Deposits

Deposits:

The fiscal court's deposits as of June 30, 2014, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$40,653

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Rob Rothenburger, Shelby County Judge/Executive
Members of the Shelby County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Shelby County, Kentucky, for the year ended June 30, 2014, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described more fully in Note 1, the financial statement is prepared by Shelby County, Kentucky on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Shelby County, Kentucky as of June 30, 2014, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of Shelby County, Kentucky as of June 30, 2014, and its cash receipts and disbursements, for the year then ended, in accordance with the accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of Shelby County, Kentucky. The budgetary comparison schedules and capital asset schedule are presented for purposes of additional analysis and are not a required part of the financial statement, however they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The budgetary comparison schedules and capital asset schedule have been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules and capital asset schedule are fairly stated in all material respects in relation to the basic financial statement.

To the People of Kentucky
Honorable Steven L. Beshear, Governor
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Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 30, 2015 on our consideration of Shelby County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discusses the following report comments:

- 2014-001 The Fiscal Court's Lack Of Adequate Segregation Of Duties And Weak Internal Controls Allowed The Payroll System To Be Manipulated And Unearned Payments To Be Made To Two Employees Totaling \$21,346
- 2014-002 The Fiscal Court Lacks Adequate Segregation Of Duties And Should Improve Internal Controls Over Disbursements
- 2014-003 The Fiscal Court Should Strengthen Internal Controls Over Payroll Processing To Ensure Employee Retirement Information Is Accurately Entered Into The County Employee Retirement System And Agrees To Supporting Payroll Documentation
- 2014-004 The Fiscal Court Should Implement A Capital Asset Inventory Policy And Maintain Complete And Accurate Capital Asset Schedules
- 2014-005 The Fiscal Court Should Reconcile The Payroll Revolving Bank Account And Resolve The Negative Account Balance
- 2014-006 The Fiscal Court Should Improve Controls Over Credit Card Purchases
- 2014-007 The Fiscal Court Should Have An Agreement With The Depository Institution To Pledge Or Provide Sufficient Collateral To Protect Deposits

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

June 30, 2015

SHELBY COUNTY OFFICIALS

For The Year Ended June 30, 2014

Fiscal Court Members:

Rob Rothenburger	County Judge/Executive
Huber Pollett	Magistrate
Michael Riggs	Magistrate
Michael Miller	Magistrate
Bill Hedges	Magistrate
Eddie Kingsolver	Magistrate
Tony Carriss	Magistrate
Danny Eades	Magistrate

Other Elected Officials:

Hart Megibben	County Attorney
Bobby Waits	Jailer
Sue Carole Perry	County Clerk
Lowery Miller	Circuit Court Clerk
Mike Armstrong	Sheriff
Brad McDowell	Property Valuation Administrator
Ronald Waldrige II	Coroner

Appointed Personnel:

Paula Webb	County Treasurer
James Ray Wiley	Occupational Tax Administrator
Rusty Newton	Deputy Judge Executive
Jenny King	Finance Officer

SHELBY COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2014

SHELBY COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2014

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 7,466,286	\$	\$
Excess Fees	575,556		
Licenses and Permits	144,036		
Intergovernmental	539,375	1,827,845	2,796,040
Charges for Services	21,192		131,908
Miscellaneous	2,337,780	18,802	236,482
Interest	6,679	2,402	145
Total Receipts	<u>11,090,904</u>	<u>1,849,049</u>	<u>3,164,575</u>
DISBURSEMENTS			
General Government	2,948,270		
Protection to Persons and Property	833,167	580	2,469,675
General Health and Sanitation	481,067		
Social Services	215,577		
Recreation and Culture	1,041,446		
Roads		1,725,078	
Debt Service	607,514		
Administration	2,891,996	382,333	901,727
Total Disbursements	<u>9,019,037</u>	<u>2,107,991</u>	<u>3,371,402</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>2,071,867</u>	<u>(258,942)</u>	<u>(206,827)</u>
Other Adjustments to Cash (Uses)			
Financing Obligation Proceeds	425,000		
Transfers From Other Funds		88,000	302,500
Transfers To Other Funds	(876,372)		
Total Other Adjustments to Cash (Uses)	<u>(451,372)</u>	<u>88,000</u>	<u>302,500</u>
Net Change in Fund Balance	1,620,495	(170,942)	95,673
Fund Balance - Beginning (Restated)	2,771,407	1,421,834	2,819
Fund Balance - Ending	<u>\$ 4,391,902</u>	<u>\$ 1,250,892</u>	<u>\$ 98,492</u>
Composition of Fund Balance			
Bank Balance	\$ 4,516,867	\$ 1,269,282	\$ 124,183
Less: Outstanding Checks	(124,965)	(18,390)	(25,691)
Certificate of Deposits			
Fund Balance - Ending	<u>\$ 4,391,902</u>	<u>\$ 1,250,892</u>	<u>\$ 98,492</u>

The accompanying notes are an integral part of the financial statement.

SHELBY COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2014
(Continued)

Budgeted Funds			
Local Government Economic Assistance Fund	Ambulance Fund	Special Fund	KACoLT Fund
\$	\$	\$	\$
72,817	10,000		7,906
	2,400,424		
	31,014		
393	82	518	
<u>73,210</u>	<u>2,441,520</u>	<u>518</u>	<u>7,906</u>
	2,864,615		
2			7,906
<u>2</u>	<u>2,864,615</u>		<u>7,906</u>
73,208	(423,095)	518	
	440,000		
	<u>440,000</u>		
73,208	16,905	518	
369,477	3,327	261,201	46
<u>\$ 442,685</u>	<u>\$ 20,232</u>	<u>\$ 261,719</u>	<u>\$ 46</u>
\$ 442,685	\$ 296,216 (275,984)	\$ 261,719	\$ 46
<u>\$ 442,685</u>	<u>\$ 20,232</u>	<u>\$ 261,719</u>	<u>\$ 46</u>

The accompanying notes are an integral part of the financial statement.

SHELBY COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2014
(Continued)

	Unbudgeted Funds		
	Justice Center Public Properties Fund	General Obligation Refunding Bond Fund	Jail Commissary Fund
RECEIPTS			
Taxes	\$	\$	\$
Excess Fees			
Licenses and Permits			
Intergovernmental	1,632,264		
Charges for Services			
Miscellaneous			324,949
Interest	9		
Total Receipts	<u>1,632,273</u>	<u></u>	<u>324,949</u>
DISBURSEMENTS			
General Government			
Protection to Persons and Property			
General Health and Sanitation			
Social Services			
Recreation and Culture			279,247
Roads			
Debt Service	1,632,264		
Administration			
Total Disbursements	<u>1,632,264</u>	<u></u>	<u>279,247</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>9</u>	<u></u>	<u>45,702</u>
Other Adjustments to Cash (Uses)			
Financing Obligation Proceeds			
Transfers From Other Funds		45,872	
Transfers To Other Funds			
Total Other Adjustments to Cash (Uses)	<u></u>	<u>45,872</u>	<u></u>
Net Change in Fund Balance	9	45,872	45,702
Fund Balance - Beginning	<u>79,399</u>	<u>91,516</u>	<u>214,096</u>
Fund Balance - Ending	<u>\$ 79,408</u>	<u>\$ 137,388</u>	<u>\$ 259,798</u>
Composition of Fund Balance			
Bank Balance	\$ 79,408	\$ 137,388	\$ 265,355
Less Outstanding Checks			(5,557)
Certificate of Deposits			
Ending Fund Balance	<u>\$ 79,408</u>	<u>\$ 137,388</u>	<u>\$ 259,798</u>

The accompanying notes are an integral part of the financial statement.

SHELBY COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2014
(Continued)

Private Purpose Trust Funds		
King's Daughter Fiscal Court Scholarship Fund		Total Funds
\$	\$	7,466,286
		575,556
		144,036
		6,886,247
		2,553,524
		2,949,027
2,379		12,607
<u>2,379</u>		<u>20,587,283</u>
		2,948,270
		6,168,037
		481,067
1,000		216,577
632		1,321,325
		1,725,078
		2,247,686
		4,176,056
<u>1,632</u>		<u>19,284,096</u>
		747
		<u>1,303,187</u>
		425,000
		876,372
		<u>(876,372)</u>
		<u>425,000</u>
747		1,728,187
<u>571,386</u>		<u>5,786,508</u>
<u>\$ 572,133</u>	<u>\$</u>	<u>7,514,695</u>
\$ 42,130	\$	7,435,279
		(450,587)
<u>530,003</u>		<u>530,003</u>
<u>\$ 572,133</u>	<u>\$</u>	<u>7,514,695</u>

The accompanying notes are an integral part of the financial statement.

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TO THE FINANCIAL STATEMENT**

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SHELBY COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2014

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Shelby County includes all budgeted and unbudgeted funds under the control of the Shelby County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

The following entities: The Shelby County 109 Taxing District and the Shelby County E911 Advisory Board would have been included in the reporting entity under accounting principles generally accepted in the United State of America (GAAP) as established by the Government Accounting Standards Board. However under the regulatory basis they are no longer are required components of the reporting entity. Audits of the following entities can be obtained from the Shelby Fiscal Court: 419 East Washington Street, Shelbyville, KY 40065.

B. Basis of Accounting

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board. This basis of accounting involves the reporting of cash and cash equivalents and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Road Fund - This fund is for road and bridge construction and repair. The primary source of receipts for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

Ambulance Fund - The primary purpose of this fund is to account for the ambulance disbursements of the county. The primary source of receipts for this fund is charges for services.

Special Fund - The primary purpose of this fund is to account for special projects of the county. The primary source of receipts for this fund is federal and state grants.

KACoLT Fund - The primary purpose of this fund is to account for debt payment made by Mt. Eden Fire District. The primary source of receipts for this fund is payments from the Mt. Eden Fire District.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

General Obligation Bond Fund - The purpose of this fund is to account for debt service requirements of the general obligation refunding bond, Series 2012.

Justice Center Public Properties Fund - The primary purpose of this fund is to account for the proceeds and debt service of revenue bonds that were issued to fund construction of public buildings.

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Commissary Fund.

Kings Daughter - Fiscal Court Scholarship Fund - This fund was established to provide scholarships for students that plan on choosing a profession in the medical field.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursement to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Jail Commissary Fund to be budgeted because the fiscal court does not approve the expenses of these funds.

The State Local Finance Officer does not require the Justice Center Public Properties Fund or the General Obligation Refunding Bond Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. Shelby County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Shelby County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of Shelby County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

F. Deposits and Investments

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

Note 2. Deposits

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the fiscal court and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met, as the fiscal court did not have a written agreement with the bank.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the fiscal court's deposits may not be returned. The fiscal court does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On June 30, 2014, the fiscal court's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$40,653

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2014.

	General Fund	Total Transfers In
Road Fund	\$ 88,000	\$ 88,000
Jail Fund	302,500	302,500
Ambulance Fund	440,000	440,000
General Obligation Bond Fund	45,872	45,872
Total Transfers Out	<u>\$ 876,372</u>	<u>\$ 876,372</u>

Reason for transfers:

To move resources from the General Fund for budgetary purposes, to the funds that will expend them.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 4. Long-term Debt

A. Financing Obligations - KACoLT Fund

Mt. Eden Fire District

On September 11, 2000, Shelby County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$98,000. The purpose of the lease was for the construction of a firehouse. The project was subleased to the Mt. Eden Fire District. The Mt. Eden Fire District gives the County enough money to cover the annual debt service payments required. The County then pays this money to the trustee. The balance of the receivable and the liability on June 30, 2014, was \$63,000.

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2015	\$ 4,000	\$ 3,659
2016	4,000	3,412
2017	4,000	3,166
2018	5,000	2,863
2019	5,000	2,554
2020-2024	28,000	7,791
2025-2026	13,000	498
Totals	<u>\$ 63,000</u>	<u>\$ 23,943</u>

B. Revenue Bonds

1) Series 2008

On November 1, 2008, the Shelby County Public Corporation issued \$9,750,000 of First Mortgage Revenue Bonds, Series 2008, for the purpose of funding the construction of a Justice Center. The Public Properties Corporation entered into an agreement with the Administrative Offices of the Courts (AOC) for the payments to be made by AOC while being tenants of the building. These bonds were issued at varying interest rates ranging from 3.50% to 4.25%, and will be retired by November 1, 2029. Interest payments are due on May 1 and interest and principal November 1. Principal payment requirements and scheduled interest for the retirement of the bonds are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2015	\$ 375,000	\$ 338,063
2016	390,000	324,675
2017	405,000	310,459
2018	420,000	294,983
2019	435,000	284,898
2020-2024	2,480,000	1,140,105
2025-2029	3,055,000	571,626
2030	805,000	34,212
Totals	<u>\$ 8,365,000</u>	<u>\$ 3,299,021</u>

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 4. Long-term Debt (Continued)

B. Revenue Bonds (Continued)

2) Series 2009

On March 1, 2009, the Shelby County Public Corporation issued \$12,285,000 of First Mortgage Revenue Bonds, Series 2009, for the purpose of funding the construction of a Justice Center. The Public Properties Corporation entered into an agreement with the Administrative Offices of the Courts (AOC) for the payments to be made by AOC while being tenants of the building. These bonds were issued at varying interest rates ranging from 2% to 4.4%, and will be retired by November 1, 2028. Interest payments are due on May 1 and interest and principal November 1. Principal payment requirements and scheduled interest for the retirement of the bonds are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 530,000	\$ 387,576
2016	545,000	371,451
2017	565,000	354,519
2018	580,000	336,336
2019	600,000	317,011
2020-2024	3,355,000	1,234,076
2025-2029	<u>4,125,000</u>	<u>465,600</u>
Totals	<u>\$ 10,300,000</u>	<u>\$ 3,466,569</u>

C. General Obligation Refunding Bonds

On December 19, 2012, the Shelby County Fiscal Court issued \$6,685,000 of General Obligation Refunding Bonds, Series 2012, for the purpose of refunding the 2005 lease for the Detention Center and the 2010 lease for the Family Activity Center. These bonds were issued at varying interest rates ranging from 1% to 3%, and will be retired by March 2, 2027. Interest payments are due on April 1 and interest and principal October 1. Principal payment requirements and scheduled interest for the retirement of the bonds are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2015	\$ 425,833	\$ 124,092
2016	430,833	119,833
2017	435,833	115,525
2018	440,000	111,167
2019	441,668	106,033
2020-2024	2,359,167	392,850
2025-2027	<u>1,511,666</u>	<u>86,700</u>
Totals	<u>\$ 6,045,000</u>	<u>\$ 1,056,200</u>

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 4. Long-term Debt (Continued)

D. Financing Obligation - EMS Land

On October 9, 2011 the County entered into a lease agreement for \$500,000 with the Kentucky Association of Counties Leasing Trust for the purchase of land for EMS. The lease term for this agreement is 15 years with the balance to be paid in full November 20, 2026. The total balance of the agreement is \$, 397,341 as of June 30, 2014. The following is a schedule of future minimum lease payments as of June 30, 2014:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2015	\$ 33,333	\$ 18,390
2016	33,333	16,898
2017	33,333	15,314
2018	33,333	13,777
2019	33,333	12,239
2020-2024	166,667	38,169
2025-2027	<u>64,009</u>	<u>4,648</u>
Totals	<u>\$ 397,341</u>	<u>\$ 119,435</u>

E. Financing Obligation - Park Building HVAC System

On May 15, 2014, the County entered into a lease agreement for \$425,000 with the Kentucky Association of Counties Leasing Trust (KACoLT) for the purchase of an HVAC system for a building owned by the County that is being used by the Shelbyville Shelby County Parks and Recreation Commission (Commission). The County does not have a formal agreement with the Commission; however, the Commission has agreed to make monthly lease payments directly to the lender. The term for this agreement is seven years with the balance to be paid in full May 20, 2021. The lease has a fixed interest rate of 3.54% per annum. Principal and interest requirements for the lease are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2015	\$ 56,045	\$ 13,997
2016	57,600	11,988
2017	59,198	9,923
2018	60,840	7,801
2019	62,528	5,620
2020-2021	<u>124,737</u>	<u>4,452</u>
Totals	<u>\$ 420,948</u>	<u>\$ 53,781</u>

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 4. Long-term Debt (Continued)

F. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 19,545,000	\$	\$ 880,000	\$18,665,000	\$ 905,000
General Obligation Bonds	6,500,000		455,000	6,045,000	425,833
Financing Obligations	497,674	425,000	41,385	881,289	37,333
Total Long-term Debt	<u>\$ 26,542,674</u>	<u>\$ 425,000</u>	<u>\$ 1,376,385</u>	<u>\$25,591,289</u>	<u>\$ 1,368,166</u>

Note 5. Flexible Spending Account

Shelby County Fiscal Court established a Flexible Spending Account (FSA) in 2006 to provide employees additional health benefits. Employees are allowed to have a maximum of \$5,000 withheld pre-tax from their paychecks to use toward healthcare or dependent care expenses. The FSA is administered through the state's Kentucky Employee's Health Plan, along with their health insurance.

Note 6. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.89 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 35.70 percent.

The county's contribution for FY 2012 was \$1,627,597, FY 2013 was \$1,746,505, and FY 2014 was \$1,764,099.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 6. Employee Retirement System (Continued)

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 7. Deferred Compensation

On February 24, 2000, the Shelby County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 7. Deferred Compensation (Continued)

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 8. Insurance

For the fiscal year ended June 30, 2014, Shelby County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Contingencies

The County is involved in multiple lawsuits that arise from the normal course of doing business. While individually they may not be significant; in the aggregate, they could negatively impact the county's financial position. Due to the uncertainty of the litigation, a reasonable estimate of the financial impact on the county cannot be made at this time.

Note 10. Private Purpose Trust Fund

The Shelby County Fiscal Court administers the following private purpose trust fund:

Kings Daughter- Fiscal Court Scholarship Fund – This fund was established November 30, 1987 by Shelby County Fiscal Court after the selling of Kings Daughter Hospital in Shelbyville, KY. Some of the funds were placed in interest bearing accounts and all interest received is to be used toward providing scholarships for students that plan on choosing a profession in the medical field. The Kings Daughter – Fiscal Court Scholarship Committee is incorporated and is governed by by-laws that were established and approved by its original Seven (7) committee members in 1987. The balance of the scholarship fund at June 30, 2014 was \$572,133.

Note 11. Related Party Transactions

Fiscal Court makes monthly payments to Shelby Services. Shelby Services rents a building owned by Magistrate Hubert Pollett for commercial use to provide county services. The total paid to Shelby Services for the year ended June 30, 2014, was \$21,000.

Note 12. Payroll Revolving Account

The reconciled balance of the payroll revolving bank account as of June 30, 2014, was \$(110,942). This negative balance was due to errors made in payroll calculations during fiscal year 2014 and earlier.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 13. Prior Period Adjustments

Adjustments were made to the beginning cash balances for four budgeted funds due to voided prior period checks in this fiscal year. The net effect was a net increase to the beginning balance of the General Fund by \$906, an increase of the Road Fund by \$424, an increase of the Jail Fund by \$1,428, and an increase of the Ambulance Fund by \$544. A private purpose trust fund is being presented that has not been presented on previous financial statements. The beginning balance of this trust fund is \$571,386 which is a \$571,386 increase over the prior year total fund balance.

Note 14. Subsequent Event

Subsequent to the fiscal year end, the former finance officer for Shelby County Fiscal Court was arrested for theft and forgery.

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SHELBY COUNTY
BUDGRTARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

SHELBY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive Negative
	Original	Final		
RECEIPTS				
Taxes	\$ 6,252,350	\$ 6,252,350	\$ 7,466,286	\$ 1,213,936
Excess Fees	195,136	195,136	575,556	380,420
Licenses and Permits	105,200	105,200	144,036	38,836
Intergovernmental	708,495	737,518	539,375	(198,143)
Charges for Services	22,000	22,000	21,192	(808)
Miscellaneous	2,484,230	2,500,880	2,337,780	(163,100)
Interest	3,500	3,500	6,679	3,179
Total Receipts	9,770,911	9,816,584	11,090,904	1,274,320
DISBURSEMENTS				
General Government	3,253,411	3,238,302	2,948,270	290,032
Protection to Persons and Property	796,861	952,312	833,167	119,145
General Health and Sanitation	442,717	492,470	481,067	11,403
Social Services	233,500	225,751	215,577	10,174
Recreation and Culture	565,652	616,446	1,041,446	(425,000)
Debt Service	601,632	647,370	607,514	39,856
Administration	3,447,133	3,114,061	2,891,996	222,065
Total Disbursements	9,340,906	9,286,712	9,019,037	267,675
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	430,005	529,872	2,071,867	1,541,995
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds			425,000	425,000
Transfers To Other Funds	(2,758,173)	(2,758,931)	(876,372)	1,882,559
Total Other Adjustments to Cash (Uses)	(2,758,173)	(2,758,931)	(451,372)	2,307,559
Net Change in Fund Balance	(2,328,168)	(2,229,059)	1,620,495	3,849,554
Fund Balance Beginning (Restated)	2,328,168	2,328,926	2,771,407	442,481
Fund Balance - Ending	\$ 0	\$ 99,867	\$ 4,391,902	\$ 4,292,035

SHELBY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

ROAD FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 510,950	\$ 510,950	\$	\$ (510,950)
Intergovernmental	1,750,708	1,750,708	1,827,845	77,137
Miscellaneous	22,000	22,000	18,802	(3,198)
Interest	2,500	2,500	2,402	(98)
Total Receipts	2,286,158	2,286,158	1,849,049	(437,109)
DISBURSEMENTS				
Protection to Persons and Property	1,000	1,000	580	420
Roads	1,765,937	1,794,543	1,725,078	69,465
Administration	519,221	490,615	382,333	108,282
Total Disbursements	2,286,158	2,286,158	2,107,991	178,167
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			(258,942)	(258,942)
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			88,000	88,000
Total Other Adjustments to Cash (Uses)			88,000	88,000
Net Change in Fund Balance			(170,942)	(170,942)
Fund Balance Beginning (Restated)			1,421,834	1,421,834
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,250,892	\$ 1,250,892

SHELBY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 2,291,448	\$ 2,291,448	\$ 2,796,040	\$ 504,592
Charges for Services	160,000	160,000	131,908	(28,092)
Miscellaneous	112,000	112,000	236,482	124,482
Interest	100	100	145	45
Total Receipts	<u>2,563,548</u>	<u>2,563,548</u>	<u>3,164,575</u>	<u>601,027</u>
DISBURSEMENTS				
Protection to Persons and Property	2,680,141	2,707,860	2,469,675	238,185
Administration	1,146,691	1,118,972	901,727	217,245
Total Disbursements	<u>3,826,832</u>	<u>3,826,832</u>	<u>3,371,402</u>	<u>455,430</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,263,284)</u>	<u>(1,263,284)</u>	<u>(206,827)</u>	<u>1,056,457</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>1,263,284</u>	<u>1,263,284</u>	<u>302,500</u>	<u>(960,784)</u>
Total Other Adjustments to Cash (Uses)	<u>1,263,284</u>	<u>1,263,284</u>	<u>302,500</u>	<u>(960,784)</u>
Net Change in Fund Balance			95,673	95,673
Fund Balance Beginning (Restated)			<u>2,819</u>	<u>2,819</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 98,492</u>	<u>\$ 98,492</u>

SHELBY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 45,000	\$ 45,000	\$ 72,817	\$ 27,817
Interest			393	393
Total Receipts	45,000	45,000	73,210	28,210
DISBURSEMENTS				
Roads	45,000	45,000	2	44,998
Total Disbursements	45,000	45,000	2	44,998
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			73,208	73,208
Net Change in Fund Balance			73,208	73,208
Fund Balance Beginning			369,477	369,477
Fund Balance - Ending	\$ 0	\$ 0	\$ 442,685	\$ 442,685

SHELBY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

	AMBULANCE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 10,000	\$ 10,000	\$ 10,000	\$
Charges for Services	1,255,000	1,255,000	2,400,424	1,145,424
Miscellaneous	12,000	12,000	31,014	19,014
Interest	250	250	82	(168)
Total Receipts	1,277,250	1,277,250	2,441,520	1,164,270
DISBURSEMENTS				
Protection to Persons and Property	2,772,139	2,872,006	2,864,615	7,391
Total Disbursements	2,772,139	2,872,006	2,864,615	7,391
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(1,494,889)	(1,594,756)	(423,095)	1,171,661
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	1,494,889	1,494,889	440,000	(1,054,889)
Transfers To Other Funds				
Total Other Adjustments to Cash (Uses)	1,494,889	1,494,889	440,000	(1,054,889)
Net Change in Fund Balance		(99,867)	16,905	116,772
Fund Balance Beginning (Restated)			3,327	3,327
Fund Balance - Ending	\$ 0	\$ (99,867)	\$ 20,232	\$ 120,099

SHELBY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

SPECIAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)
	Original	Final	
			Variance with Final Budget Positive (Negative)
RECEIPTS			
Interest	\$	\$	\$ 518
Total Receipts			518
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			518
Net Change in Fund Balance			518
Fund Balance Beginning			261,201
Fund Balance - Ending	\$ 0	\$ 0	\$ 261,719

SHELBY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

KACOLT FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 7,148	\$ 7,148	\$ 7,906	\$ 758
Total Receipts	7,148	7,148	7,906	758
DISBURSEMENTS				
Debt Service	7,148	7,906	7,906	
Total Disbursements	7,148	7,906	7,906	
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(758)		758
Other Adjustments to Cash (Uses)				
Transfers From Other Funds		758		(758)
Total Other Adjustments to Cash (Uses)		758		(758)
Net Change in Fund Balance				
Fund Balance Beginning			46	46
Fund Balance - Ending	\$ 0	\$ 0	\$ 46	\$ 46

SHELBY COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2014

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

Note 2. Excess of Disbursements Over Appropriations

The Fiscal Court exceeded budgeted appropriations in the General Fund Recreation and Culture line by \$425,000.

SHELBY COUNTY
SUPPLEMENTARY SCHEDULE
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014

SHELBY COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

The fiscal court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 2,955,005	\$	\$	\$ 2,955,005
Construction In Progress	605,965			605,965
Buildings and Improvements	39,271,848	402,866		39,674,714
Equipment	2,670,121	12,089		2,682,210
Vehicles	3,622,183	251,450	107,600	3,981,233
Infrastructure	13,790,663	1,020,376		14,811,039
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Capital Assets	<u>\$ 62,915,785</u>	<u>\$ 1,686,781</u>	<u>\$ 107,600</u>	<u>\$64,710,166</u>

SHELBY COUNTY
INFORMATION - SCHEDULE OF CAPITAL ASSETS

June 30, 2014

Note 1. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 1	N/A
Land Improvements	25,000	10-60
Buildings	50,000	10-75
Building Improvements	50,000	10-40
Machinery & Equipment	5,000	3-25
Vehicles	5,000	5
Infrastructure	30,000	10-50
Intangibles	5,000	2-40

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Rob Rothenburger, Shelby County Judge/Executive
Members of the Shelby County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Shelby County Fiscal Court for the fiscal year ended June 30, 2014, and the related notes to the financial statement and have issued our report thereon dated June 30, 2015. The Fiscal Court's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Shelby County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Shelby County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Shelby County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2014-001, 2014-002, 2014-003, and 2014-004 to be material weaknesses.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying comments and recommendations as items 2014-005 and 2014-006 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Shelby County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2014-002, 2014-003, 2014-006, and 2014-007.

County Judge's Responses to Findings

The Shelby County Judge's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The County Judge's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

June 30, 2015

**SHELBY COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2014

SHELBY COUNTY
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2014

FINANCIAL STATEMENT FINDINGS:

2014-001 The Fiscal Court's Lack Of Adequate Segregation Of Duties And Weak Internal Controls Allowed The Payroll System To Be Manipulated And Unearned Payments To Be Made To Two Employees Totaling \$21,346

During fiscal year 2014, the Fiscal Court had a lack of segregation of duties and inadequate supervisory review over payroll processing. A former employee had the responsibility of recomputing hours paid from timesheets, calculating overtime and leave time, preparing supplemental payments and withholding payments, entering data into the retirement reporting system, inputting payroll information into the accounting system, preparing ACH files, preparing payroll checks and identifying and correcting errors. The person responsible for processing payroll was also able to set up new employees in the payroll system and change pay rates. During fiscal year 2014, the former employee increased the pay rate of her spouse (a county employee), added overtime to his timesheet, added overtime to her own timesheet, and used leave time when they had negative leave balances. The former employee also created a fictitious employee using her spouse's social security number. The fictitious employee, who had the same name as her spouse, was paid gross wages of \$5,793 over four pay periods. These funds were deposited into the former employee and/or her spouse's bank accounts. The result of these actions caused gross wages of \$625 to be overpaid to the former employee and gross wages of \$9,300 to be overpaid to the former employee's spouse. The result is \$15,718 overpaid in payroll and \$5,628 paid directly by disbursement check (See finding 2014-002), totaling \$21,346 in unearned payments received by the former employee and her spouse during the period reviewed.

These actions were possible because management did not implement a strong system of internal controls such as segregating duties or supervisory review. Further, the former employee had unlimited access to the payroll system allowing her to manipulate data by posting additional hours worked, altering pay rates and adding employees without detection.

Auditors noted the following issues with the former employee's payroll:

- She was paid four (4) times without a timesheet filed with the payroll reports
- Three (3) instances where her leave time used on timesheets did not agree to payroll stubs
- One (1) instance where her timesheet was not approved by a supervisor
- One (1) instance where she entered extra hours not worked and not approved resulting in an over payment of \$625 in gross wages
- Seven (7) instances where sick leave taken during a period took her to a negative leave balance
- One (1) instance where vacation leave taken during a period took her to a negative leave balance

Auditors noted the following issues related to the former employee's spouse's payroll:

- Seven (7) instances where extra unapproved overtime hours were paid totaling 264 hours
- Six (6) instances where extra unapproved regular hours were paid totaling 72.25 hours
- One (1) instance where extra unapproved vacation leave was paid totaling 14.38 hours
- Three (3) instances where extra unapproved sick leave was paid totaling 32 hours
- Two (2) instances where the former employee changed her spouse's hourly rate resulting in overpayment
- Two (2) instances where the former employee's spouse carried a negative leave and/or sick leave balances

SHELBY COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-001 The Fiscal Court's Lack Of Adequate Segregation Of Duties And Weak Internal Controls Allowed The Payroll System To Be Manipulated And Unearned Payments To Be Made To Two Employees Totaling \$21,346 (Continued)

Additionally, numerous errors were made during payroll processing and retirement reporting. (See Finding 2014-003)

Good internal controls dictate segregating duties to ensure no one person has the ability to commit and conceal fraud or errors. Duties should be segregated between processing, posting, check-writing and reconciliation. Further, strong management oversight and review is necessary to help deter, prevent and detect overpayments, payment for time not worked, and processing errors. Employee access should be limited in a computer system to only the functions necessary for that employee to complete job duties. The ability to set up new employees and change pay rates should be limited to someone who does not have the ability to process payroll or create checks.

We recommend the fiscal court implement a strong internal control system by segregating duties, limiting access in the payroll system, and reviewing payroll reports timely to ensure accuracy. We further recommend the fiscal court seek reimbursement for the overpayments from the former employee and her spouse.

County Judge/Executive's Response: Duties have been segregated and internal controls strengthened.

2014-002 The Fiscal Court Lacks Adequate Segregation Of Duties And Should Improve Internal Controls Over Disbursements

During fiscal year 2014, the Fiscal Court had a lack of segregation of duties and inadequate supervisory review in the disbursements process. One former employee had the ability to procure goods and services, write purchase orders, use credit cards, pay invoices, post transactions, and write checks with little management oversight or review. Further, this former employee could create and change vendor information in the accounting system. This former employee prepared, approved and wrote checks to herself and her spouse totaling \$5,628 during fiscal year 2014 and the first half of fiscal year 2015. There was no valid supporting documentation for these payments. In addition, this former employee made numerous errors during disbursements processing that went undetected by the county's internal control system.

Management lacked established, consistent policies and procedures for internal controls over disbursements. No supervisory review was performed to ensure all payments made were for valid purchases. The purchase order system in use acted as more of a purchase documentation system. Purchases were made before purchase orders are written, as evidenced by the dates on receipts being earlier than the dates on the purchase orders. Purchase orders were not consistently used for every disbursement. There was no system of tracking checks to ensure checks were not used and signed between batches.

SHELBY COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-002 The Fiscal Court Lacks Adequate Segregation Of Duties And Should Improve Internal Controls Over Disbursements (Continued)

As a result of the weaknesses, auditors noted the following issues during disbursements testing:

- Purchase orders were often prepared, completed, issued, and approved by the former employee. Many of these appeared to have the County Judge/Executive's name or initials written on the approval line by someone other than him.
- Sufficient supporting documentation was not available for every purchase. Some payments were made from copies of invoices and some payments had no invoices or no purchase order attached.
- One fuel bill tested did not include the purchase receipts that would identify the department or vehicle purchasing the fuel. That fuel bill was overpaid by \$753.
- A vehicle purchased only had the dealer's quote attached to the purchase order as supporting documentation. The original invoice was later obtained by auditors from the department that ordered the vehicle.
- Payment was made for vehicle service from an estimate instead of an original invoice. The invoice was later obtained by auditors from the department.
- Invoices were paid over 30 days past the date of receipt, resulting in late charges, interest, and late fees. We noted \$771 paid during the fiscal year to one utility due to late payments and interest and late charges totaling \$281 paid due to late credit card payments.
- Three instances of overpayments were noted in the sample tested, two to the same vendor. Numerous overpayments were noted in the testing of credit card transactions, including one for \$1,300 that paid several charges more than once.
- One bill was paid for a different amount than the amount on the bill list approved by fiscal court.
- Payments were made for employee travel and training that included extra charges for "spouse registration" and a "family suite." While it is the policy of the fiscal court to have employees or magistrates reimburse the county for these extra charges by billing the employee or magistrate, there was no documentation available to indicate the bill was prepared or reimbursement received.
- Two payments were made to a contractor totaling \$23,241, which exceeds the county's bid requirement of \$20,000, but the work was not bid.
- \$475 in food and picnic items were coded to "misc supplies" without further documentation of the purpose of the purchase.
- A personal purchase made by the former employee of box springs at Walmart.com totaling \$195 using the county Visa credit card.
- Payment made to Visa from a hotel reservation confirmation page that was never charged to the credit card, resulting in an overpayment on the credit card statement.
- A check written to Walmart for \$1,071 with no supporting documentation and was not found to have been credited to the county's Walmart credit card. The signatures on this check do not appear to be valid signatures of the County Judge Executive and County Treasurer. Eight other checks written to Walmart totaling \$632 were also not found to have been credited to the Walmart credit card.
- The former employee wrote checks to herself and her spouse without supporting documentation or approval, as noted below. The signatures on all of these checks do not appear to be valid signatures of the County Judge/Executive and County Treasurer. Two of the checks were processed by changing the vendor name in the accounting system to her spouse's name, printing the check, then changing the vendor name back to the actual vendor so that the check register and disbursements ledger would show the original vendor as the payee.

SHELBY COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-002 The Fiscal Court Lacks Adequate Segregation Of Duties And Should Improve Internal Controls Over Disbursements (Continued)

- | | |
|--|---------|
| • Two disbursement checks written directly to the former employee total | \$ 632 |
| • Five disbursement checks written to the former employee's spouse total | \$4,996 |

Management has a responsibility to design and implement internal controls that provide reasonable assurance of safeguarding resources against waste, fraud, and abuse. Good internal controls provide reasonable assurance that the recording, processing, and reporting of data is properly performed and that if errors or fraud occur, detective controls will bring these to management's attention. Management should be sufficiently involved with day to day operations, by providing strong oversight and review, to mitigate the risks inherent in certain accounting areas. Incompatible duties should be segregated to assure that no one person has the ability to commit and conceal fraudulent activity or to process errors that go undetected.

Good internal controls dictate that adequate supporting documentation and purchase orders be maintained for all disbursements. All vendor invoices, receipts, and statements should be maintained and agreed to corresponding purchase orders and reports. KRS 65.140(2) requires all bills for goods and services to be paid in full within thirty (30) working days of receiving a vendor invoice. KRS 424.260 states when the county purchases, makes a contract, lease, or other agreement involving an expenditure of more than \$20,000, they must advertise for bids.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. In the Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual, purchase guidelines are prescribed by the State Local Finance Officer, including:

1. Purchases shall not be made without approval by the judge/executive (or designee), and/or a department head.
2. Purchase requests shall indicate the proper appropriation account number to which the claim will be posted.
3. Purchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made.
4. Each department head issuing purchase requests shall keep an updated appropriation ledger and/or create a system of communication between the department head and the judge/executive or designee who is responsible for maintaining an updated, comprehensive appropriation ledger for the county.

To improve internal controls over disbursements, we recommend the Fiscal Court take the following actions:

- segregate duties to ensure no one person has the ability to create, approve, and process transactions without sufficient management oversight and review,
- review and update the purchase order system in use to ensure state guideline are met,
- update and communicate the purchase order and credit card policy to all staff,
- require all original invoices, receipts, statements and other supporting documentation to be maintained and reconciled to corresponding purchase orders and bill lists for all disbursements,
- pay only from original invoices, not estimates, quotes, copies, or email confirmations,

SHELBY COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-002 The Fiscal Court Lacks Adequate Segregation Of Duties And Should Improve Internal Controls Over Disbursements (Continued)

- ensure all invoices are processed and paid within 30 days of receipt to avoid unnecessary late charges, interest, and finance charges,
- update and communicate the policy to staff concerning reimbursement for excess charges during training events for spouses and other family members,
- account for all checks in numerical sequence by maintaining a check register or other check log system for both the County Judge/Executive and Treasurer that tracks the last check signed, to prevent signing of checks by unauthorized personnel,
- limit vendor creation and vendor file changes to authorized personnel,
- provide the county's tax id information to all vendors to avoid paying sales tax.

The fiscal court should also investigate the payments made to Walmart that were not credited to the county's account.

County Judge/Executive's Response: Duties have been segregated and internal controls strengthened.

2014-003 The Fiscal Court Should Strengthen Internal Controls Over Payroll Processing To Ensure Employee Retirement Information Is Accurately Entered Into The County Employee Retirement System And Agrees To Supporting Payroll Documentation

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Employees are classified as full time or part time and hazardous or non-hazardous.

During fiscal year 2014 this data was manually entered into the CERS reporting system for each employee by the former employee discussed in findings 2014-001 and 2014-002.

During our reconciliation of the county's payroll system to the (CERS) reporting system we noted the following:

- Not all county employees on county payroll reports were consistently reported to the retirement system.
- One county employee holding a Hazardous position and a Non Hazardous position was only entered in retirement system one time at Hazardous classification.
- Employee names and salaries were copied from May with three pay periods into June with two pay periods making salary totals for June be overstated.
- Sometimes new employees were not entered into the system timely or at all.
- Salaries were not adjusted for raises in the system timely.
- There was not review of the manually entered data to ensure accuracy and completeness with the payroll system reports.
- Supporting documentation for data manually entered was inconsistently maintained.

SHELBY COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-003 The Fiscal Court Should Strengthen Internal Controls Over Payroll Processing To Ensure Employee Retirement Information Is Accurately Entered Into The County Employee Retirement System And Agrees To Supporting Payroll Documentation (Continued)

Management has not established a policy for adequate supervisory review of the data entered into the retirement system to be compared to data from the payroll system for accuracy and completeness.

Lack of proper internal controls increases the risk incorrect information will be processed by the CERS reporting system for employee contribution and county match and that these errors will not be identified or corrected which could impact the county and the employees as listed below:

- Gross salaries understated in CERS system resulting in
 1. Employees being under-credited in retirement contribution
 2. Employees being under-matched in retirement contribution
 3. County not paying enough to retirement for employee contribution and county match
 4. Employee withholdings and maybe county match remaining in the payroll clearing bank account
- Gross salaries overstated in CERS system resulting in
 1. Employees being over-credited in retirement contribution
 2. Employees being over-matched in retirement contribution
 3. County over paying to retirement for employee contribution and county match
 4. Paying overstated retirement bill overdraw payroll clearing bank account

After our initial work in this area, management requested a comparison of payroll reports to retirement data for the period September 2011 through December 2014. We have provided the county with detailed information based on this review. Our analysis of that time period for each employee found a net underpayment by the county of \$48,146 made up of \$8,819 in employee contribution and \$39,228 in employer match due to inaccurate data entered into CERS reporting system. This can have a potentially significant effect on current employees' retirement balances as well as impact the benefits paid to those employees that retired recently.

Good internal controls dictate adequate supporting documentation and an established policy requiring consistent review for verification of the accuracy and completeness of data reported.

KRS 61.680(6) states, "any member of the Kentucky Employees Retirement System or County Employees Retirement System who is working in more than one (1) position covered by the same retirement system, shall have his wages and contributions consolidated and his retirement account administered as a single account. If part-time positions are involved, an accumulation of all hours worked within the same retirement system shall be used to determine eligibility under KRS 61.510(21)." KRS 61.510(21) defines eligibility as those "positions that average one hundred (100) or more hours per month, determined by using the number of months actually worked within a calendar or fiscal year."

SHELBY COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-003 The Fiscal Court Should Strengthen Internal Controls Over Payroll Processing To Ensure Employee Retirement Information Is Accurately Entered Into The County Employee Retirement System And Agrees To Supporting Payroll Documentation (Continued)

Employers are required to include all employees in CERS reporting system per regulation in 105 KAR 1:140. Employer's administrative duties. Section 1. (8) Each employer shall report employees who are not regular full-time employees as defined by KRS 61.510(21) and 78.510(21), but shall not remit employer or employee contributions for those employees unless required to do so pursuant to KRS 61.680(6),

We recommend Fiscal Court strengthen controls over payroll by establishing policies and procedures to ensure data entered accurately into the retirement system and is reviewed for accuracy and agreement to the payroll system by someone other than the person doing the data entry.

County Judge/Executive's Response: Internal controls strengthened and HR software purchased to enabling stronger supporting payroll documentation

2014-004 The Fiscal Court Should Implement A Capital Asset Inventory Policy And Maintain Complete And Accurate Capital Asset Schedules

The county has not put procedures in place to ensure asset additions or asset retirements and asset disposals are accurately documented during the fiscal year. The auditor noted annual inventories are requested from the departments however there is no review or reconciliation of the inventories to the capital asset schedule to ensure accuracy. Further, the county has included an asset on the capital asset schedule not titled to the county.

This is a repeat comment from the prior year as this has been an ongoing issue with the county not taking action to ensure compliance with the Department for Local Government's policy documented in the County Budget Preparation and State Local Finance Officer Policy Manual. The Department of Local Government (DLG) requires counties to maintain records for fixed assets including infrastructure, buildings, land, vehicles, equipment and other items purchased or received exceeding capitalization threshold determined by the fiscal court.

Not maintaining an accurate list of assets could result in new assets not being insured and retired assets not being removed from insurance. Further, the capital asset schedule included in the financial statements could be materially incorrect.

Good internal controls over compliance dictate adequate supporting documentation be maintained for assets and the capital asset schedule be updated regularly throughout the year to ensure accurate information is recorded.

In order to strengthen controls over capital assets and infrastructure, we recommend the fiscal court implement a capital asset inventory policy, conduct annual inventories and require departments to submit completed inventory sheets to the County Judge/Executive's office. The submitted inventory should then be reconciled to the capital asset schedule. If the Judge/Executive's office finds that notifications of new or disposed capital assets are not submitted from departments timely, a compensating control could include review of the fiscal court minutes, as they typically document purchases and disposals.

SHELBY COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-004 The Fiscal Court Should Implement A Capital Asset Inventory Policy And Maintain Complete And Accurate Capital Asset Schedules (Continued)

County Judge/Executive's Response: Software has been purchased and implemented to facilitate and maintain complete and accurate asset schedules.

2014-005 The Fiscal Court Should Reconcile The Payroll Revolving Bank Account And Resolve The Negative Account Balance

The fiscal court uses a clearing bank account for payroll processing. Deposits are made into the bank account from the county's general, road, jail and EMS funds to pay for salaries, taxes, the county's matching portion of taxes, retirement, and health insurance, and other payments to benefit vendors. The account should reconcile to zero every month because the total amount deposited into the account should be completely paid out that same month. The fiscal court has not completed regular, accurate reconciliations for this bank account, resulting in a negative reconciled balance at June 30, 2014 of (\$110,942). The balance is due to the cumulative effect of various errors made in payroll processing, including:

- failure to deposit two of the clerk's payments for retirement and health contributions;
- overpayment/underpayment of the county's retirement matching contribution to the county retirement system;
- payment of the monthly health insurance invoice before completing a reconciliation, resulting in a difference between the amount due and the amount paid;
- overpayment of benefits and withholdings to vendors
- various other errors noted in calculations/payments

Good internal controls require timely, accurate reconciliations to ensure all funds are properly accounted for and to prevent misappropriation of funds and/or inaccurate financial reporting.

We recommend the fiscal court reconcile the payroll revolving bank account to zero every month. A reconciliation should also be performed of the health insurance invoice to withholdings and county match before the transfer is made to the clearing account. Differences noted in the reconciliation should be tracked as reconciling items. To address the current negative account balance, the fiscal court should complete a current month reconciliation and determine the ending balance in the account. If the balance is still negative, a cash transfer from the county's funds to the payroll revolving bank account should be made to bring the bank account balance to zero. The reconciliation should be performed by someone other than the person responsible for payroll processing, to ensure an adequate segregation of duties.

County Judge/Executive's Response: Account reconciled and balanced.

SHELBY COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-006 The Fiscal Court Should Improve Controls Over Credit Card Purchases

During expenditure testing of credit card purchases we noted the following:

- purchase orders without original receipts or invoices
- purchase orders without approval signatures from department heads
- purchase orders prepared from receipts after purchase
- payments made from credit card statement balances not matched to purchase orders
- purchase orders not paid within 30 days of receipt

We further noted in several instances the supporting documentation (i.e. cash register receipts) were not maintained or reconciled to the statements and payment was made based on an outstanding statement balance.

The lack of consistent documentation increases the risk for fraud or error. By not consistently requiring purchase orders prior to using credit card for purchase and matching purchase receipts or invoices to purchase orders, the Fiscal Court's finance personnel cannot perform a complete, knowledgeable review of documentation before payment of the expense.

Documentation of all expenditures should be included in the overall payment package for approval by fiscal court. An annual review by the fiscal court of the administrative code is required by KRS 68.005 during the month of June. KRS 65.140(2) requires all bills for goods and services to be paid in full within thirty (30) working days of receiving a vendor invoice. It continues to state that if payment of invoices exceeds thirty (30) days, a 1% interest penalty should be added.

Strong internal controls dictate procedures in place to reconcile monthly receipts submitted by employees to the credit card statements.

We recommend the fiscal court implement control procedures to ensure purchase orders are prepared prior to purchases using a credit card; purchase receipts are matched to the purchase order; and credit card receipts are reconciled to the credit card statements on a monthly basis. We further recommend full documentation of credit card purchases be provided to fiscal court members with the list of expenditures to be approved.

County Judge/Executive's Response: Internal controls improved over credit card purchases.

2014-007 The Fiscal Court Should Have An Agreement With The Depository Institution To Pledge Or Provide Sufficient Collateral To Protect Deposits

On June 30, 2014, \$40,653 of the Fiscal Court's deposits of public funds at US Bank was uninsured and unsecured. According to KRS 66.480(1) (d) and KRS 41.240(4), the depository institutions should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. The Fiscal Court should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

SHELBY COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-007 The Fiscal Court Should Have An Agreement With The Depository Institution To Pledge Or
Provide Sufficient Collateral To Protect Deposits (Continued)

We also recommend the Fiscal Court enter into a written agreement with the depository institution to secure the County's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

County Judge/Executive's Response: This has been executed.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

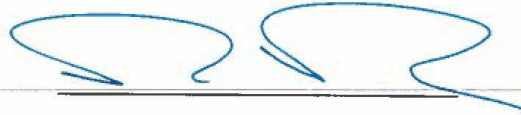
SHELBY COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2014**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
SHELBY COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2014

The Shelby County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



County Judge/Executive



County Treasurer

